

## **Background on the KEMA report**

In March 2004, BPA hired the consulting firm KEMA to do a “high flyover” of BPA to identify functions that could yield further efficiencies. KEMA looked at 70 different functions across BPA and identified 23 where potential efficiencies could be found. In mid-July, after nearly four months of work with BPA, KEMA presented its recommendations.

The impetus for the KEMA work is implementation of a specific area of BPA’s Strategic Direction. That direction reads: **“Effective cost management (with emphasis on best practices, innovation, and simplicity) through our systems and processes.”** *(It appears as II, the first ellipsis under Internal Operations on BPA’s strategy map.)*

KEMA’s charge was to conduct a high flyover and provide a roadmap for BPA to use in working toward more efficiency. KEMA told BPA where and how to find the efficiency potential in many functional areas, but left the specifics of what to do to the next phase.

BPA is now launching individual projects in seven functions (*identified below*) to develop and implement specific changes in how we conduct our business. BPA is on a fast track to implement efficiency initiatives.

### **Questions and Answers**

#### **Q. Who is KEMA and how was it selected?**

KEMA Incorporated of Burlington, Mass., is an international consulting firm specializing in the energy and utility business. Last February, BPA competitively selected KEMA from among 21 consulting firms. Representatives from BPA’s Customer Collaborative participated in the selection of KEMA.

#### **Q. What did KEMA find and recommend?**

First, KEMA had two broad thematic findings.

##### ***1. BPA’s current organizational structure does not fit its vision and business environment.***

KEMA found that the agency was organized around a direction set in the 1990s that envisioned BPA would be split into two separate agencies. At that time, there also was an expectation that a substantial portion of the Transmission Business Line could move into a regional transmission organization. Neither appears likely today. Discussions of an RTO have evolved to a picture of minimal transfer of function, which would leave BPA with ownership and physical operation of its transmission assets.

KEMA said BPA is still driven by its two-BPA paradigm and has not yet defined the path for achieving its One-BPA objective. Much of the redundancy now built into the two business lines is far more than needed to comply with the Federal Energy Regulatory Commission’s Standards of Conduct for ensuring open, nondiscriminatory access by customers to BPA’s transmission. According to KEMA, our outdated paradigm does not square with today’s market realities and

could prevent us from achieving major parts of our strategic objectives. As BPA re-looks at how it is organized, it still intends to fully comply with FERC's Standards of Conduct (SOC).

**2. *BPA is so focused on broad outcomes and results that it ignores or shortchanges the systems and processes that are employed to achieve those results.*** KEMA found BPA is not consistent in how it goes about getting results. Many systems and processes have been developed ad hoc for individual projects and initiatives. The agency does not have standardized systems and processes in place that would enable succeeding staff to come in and take over a well-defined process that previous staff had employed. Standardized processes, based on best practices, would save time and money and also help with succession issues.

**Q. What are the first seven areas for implementation?**

The seven areas selected for initial implementation and their team leads are:

- TBL project planning, design and construction
- Marketing and sales
- Energy efficiency project management
- Fish and wildlife project management
- Information technology
- Communications and Regional Relations
- HR and staff management

**Q. Why were these areas selected first?**

In several cases the driving factor was that groundwork had already begun in these areas. Information technology, for example, is well on the road to completing major process clarification and reorganization. Therefore, making these areas a priority keeps the momentum going. Other factors included relative ease of implementation and the ability to use these areas to inform how more complex areas can be addressed.

**Q. Does KEMA's report provide a holistic overview of all functions of BPA?**

No. KEMA did not do an audit of BPA. Its job was to identify areas for securing efficiencies, not to identify where BPA is doing well. Therefore, KEMA's findings do not present a complete picture of BPA. While KEMA recognized there are areas of operational excellence at BPA, KEMA did not spend time on those areas.

**Q. Will BPA implement all the KEMA findings?**

BPA will carefully review all of KEMA's recommendations. In some areas, KEMA went beyond its charge to identify efficiencies in functions (**how** we deliver the BPA mission) and made suggestions on **what** we should deliver on programs, products and services. The "what" BPA does will be addressed in other venues, such as the Regional Dialogue, that are open public processes that allow input from customers and constituencies

**Q. Does BPA agree with all the KEMA findings?**

We agree with KEMA that the specific areas they told us to look at are the right ones. We agree this is the right framework. In some cases, KEMA offered somewhat more detailed points within the specific areas. We have not yet done the evaluation necessary to determine if these points are valid or not.

**Q. What's the timeline for implementing changes?**

Timelines will vary for individual areas, but overall the agency is on a fairly fast track. BPA has already progressed significantly in some areas that it identified through its own efficiency projects, such as the IT consolidation. Recommendations for the first seven areas to be addressed should be ready in a few months. BPA will assess progress frequently and expects to move quickly to achieve significant results in months rather than years.

**Q. KEMA says BPA is overstaffed in some areas, yet understaffed in others. What does BPA intend to do about that?**

The focus on the possibility of two BPAs in the 1990s led to redundancies and overstaffing in some areas. BPA does not plan a disruptive involuntary reduction in force, but does plan to aggressively reduce overall staffing in those areas. BPA has applied for authority to offer Voluntary Separation Incentives (VSIs) and Voluntary Early Retirement Authority (VERA). In addition, a sizable portion of BPA's workforce is nearing retirement age. Twenty percent of our employees are over age 55. It is therefore reasonable to believe that attrition will be sufficient to bring total work force numbers down. KEMA also indicated there are some areas in which BPA is understaffed, so some hiring may take place in discrete areas.

**Q. Did KEMA recognize that BPA isn't just another utility and that it has important public service responsibilities?**

KEMA explicitly recognized this and noted that BPA's "complex mission creates some inherent inefficiencies that affect the manner in which BPA does business." KEMA did not attempt to put BPA in a utility "cookie-cutter mold" to promote efficiencies that would put BPA's mission at risk. As KEMA said, "An Investor-Owned Utility-for-profit organization will have different processes than the Agency whose mission is significantly different."